

## REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Nance Petroleum Corporation  
550 N. 31<sup>st</sup> St., Suite 500  
P.O. Box 7168  
Billings, MT 59103-7168

Township 27 North, Range 57 East  
Section 8: SE $\frac{1}{4}$   
Section 9: SW $\frac{1}{4}$   
320 Acres  
Roosevelt County

State Tract(s):  
Township 27 North, Range 57 East  
Section 8: E $\frac{1}{2}$ SE $\frac{1}{4}$   
80 Acres  
Trust: Common Schools 100%

Nance Petroleum Corporation has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

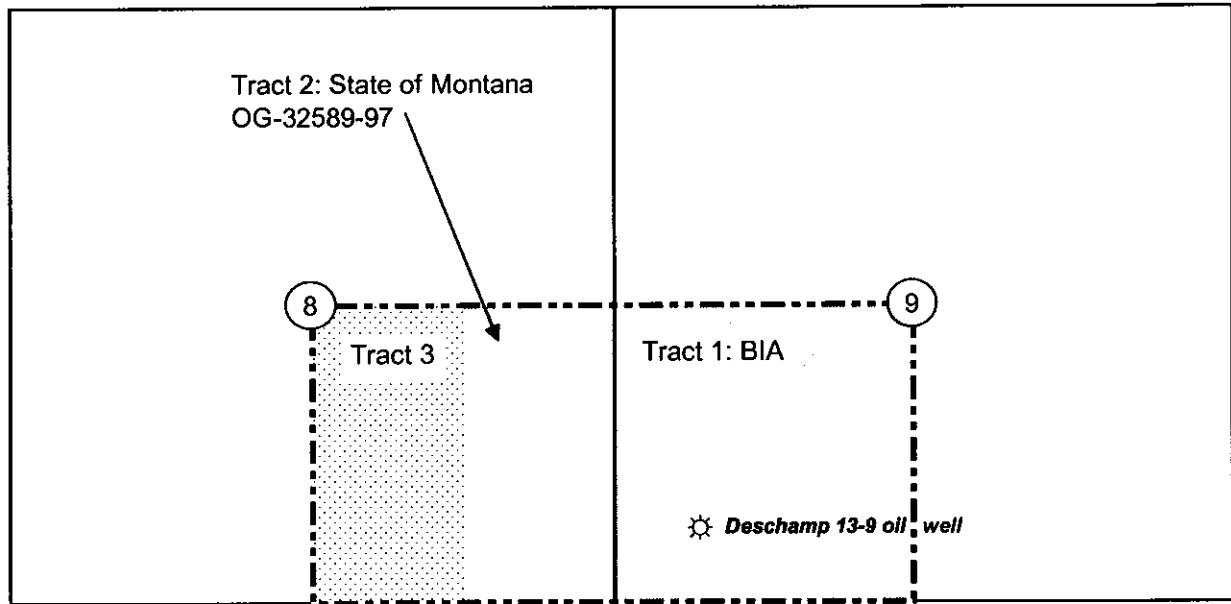
The Deschamp 13-9 well, which is a Red River formation oil well, was drilled in the SW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 9. This spacing unit has a total of 320 acres. The Department owns 80 acres of the 320 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit will share in the royalty from this well. The Communitization Agreement includes only the Red River formation in the SE $\frac{1}{4}$  of Section 8 and SW $\frac{1}{4}$  of Section 9.


The Department's tract comprises 25% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The Department will consequently receive 3.25% of all oil production (13% royalty rate x 25% tract participation) and 3.125% of all gas production (12.5% royalty rate x 25% tract participation).

The Communitization Agreement will allow the State to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

# Township 27 North, Range 57 East

## Sections 8 & 9 *ROOSEVELT COUNTY*



 Proposed Communitized Area

### Recapitulation

<i>Tract No.</i>	<i>Type</i>	<i>Acres</i>	<i>Tract Participation</i>	<i>Royalty % (oil)</i>	<i>Owners Interest Decimal</i>
1	Bureau Of Indian Affairs	160.00	50.00%	16.67%	8.3350%
2	<b>Montana OG-32589-97</b>	<b>80.00</b>	<b>25.00%</b>	<b>13.00%</b>	<b>3.2500%</b>
3	McClanark Mineral Trust	80.00	25.00%	14.00%	3.5000%
Total		320.00	100.00%		

*\* Operator of Communitized Area: Nance Petroleum Corporation*

